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PRICE CONTROL

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Prices all over the world during this war have risen, and very rapidly. This is not a local phenomenon or manifestation. It is world-wide. The price of coal in Norway, the price of foodstuffs in Italy, the price of silver in China, the prices of all commodities the world over have appreciably increased. One of the fundamental reasons, perhaps, for this increase in prices is found in the fact that the measuring standard of value—money—has greatly increased in volume. Nations have been obliged to issue large volumes of paper money. Credits have taken the place of money to an appreciable extent. The inevitable consequence is an increase in the prices of commodities whose value they measure.

There are additional reasons for increases in prices. There have come great and abnormal demands for certain commodities. The great war has consumed enormous quantities of materials in its processes of destruction which heretofore were not demanded for that particular use, or lack of use, but which were used in the ordinary processes of industry and trade. The demand for basic commodities has greatly increased. With reference to a great many commodities there are physical limitations in increasing production. It takes a year and a half to build a paper mill or twelve months to build a steel mill. The increase in the supply has not kept pace with the increase in demand. Prices register this condition.

Thirty million men, or more, have been taken away from production and have been engaged in the destruction of property. Not only have the sources of supply been curtailed, but the available supply has been consumed in non-productive forces. Under such conditions it is inevitable that prices should rise.

Whenever in the history of the world such a situation has come, men organized into communities or governments have tried to prevent the hardship that accrues. Governments cannot prevent the workings of economic laws, but government seeks to prevent the cupidity of men from taking an exorbitant profit out of commodities whose value has increased entirely because of abnormal conditions. With the supply limited, governments have sought to pre-

scribe how that supply shall be distributed, and at prices which are based upon costs and upon such fair values as obtained before the rise of unusual and abnormal conditions.

The earliest instance of price fixing historically, I presume, was biblical. The Emperor Diocletian in Rome, three hundred years after Christ, tried to fix the prices of various commodities and the prices of labor. Sixty years afterwards the Emperor Julian tried the same thing. During the French Revolution the English fleet blockaded France, foodstuffs fell off in production, there was a great demand for food, prices went up and the French government attempted at that time to establish fixed prices and fixed the law of the maximum which, after a very brief trial, was suspended in its operation.

Recently, Germany has made the most elaborate and intensive effort to control prices. The results we will not know with definiteness until the conclusion of the war. France followed; English colonies early embarked upon the plan; England itself was the last to attempt it. We are now embarking upon a similar effort. In fact, there isn't a neutral or warring nation in the world that has a conscious, deliberate intent to serve the interests of its people but that is addressing itself to this problem and trying to control price.

Economists have always maintained that this was impossible; that it was unsound to attempt it; and that it was foredoomed to failure. It is characteristic of man that in the process of his evolution he will not admit that failure is foreordained where the general welfare of society is concerned, and it remains to be seen whether under present conditions as to production, transportation and distribution, with modern intelligence, this situation can be successfully worked out.

Our present situation is briefly this: legislation has been passed looking to fixing prices for government purchase generally and looking to the fixing of prices for the public as to food and fuel. The National Defense Act and the Naval Appropriation Act gives the President of the United States power to fix the price at which materials shall be taken for the use of the government. It is maintained that this power applies only to the purchase of those commodities which are used directly in military activities for ourselves or for our allies, steel for warships or projectile steel for shells, or lumber or coal for ships.

There are others who maintain that under this power the President might extend this to the possible fixing of all prices for the use of the general public.

The only specific legislative authority to fix prices for the public thus far, however, is found in the so-called Lever Act which has to do with food, fuel and agricultural implements. Senator Pomerene has introduced a resolution which is now before the Senate and which aims to bring about the same control over the price of steel and other commodities as obtains over the price of fuel and food. With the government of the United States—a large purchaser—taking out of the lumber and steel markets or any of the basic markets a large quantity of material for war purposes, there follows a manifest effect upon prices. The available supply for the business and commercial uses of the country is that much diminished. In a market already hectic with demand the introduction of such an additional large buying factor forces prices still higher.

Prices in the market at the present time are, generally speaking, not dependent upon the cost of production, but are dependent upon the degree of men's needs and the competitive bidding they engage in to get the materials.

The Federal Trade Commission has been engaged for the past eighteen months with a large corps of accountants and investigators in ascertaining the facts as to costs of production of many of the basic commodities, such as steel, cement, aluminum, petroleum, fuel, oil, news-print paper and a great variety of similar commodities. This was upon the direction of the President of the United States who, with characteristic foresight, concluded that it would be necessary for him and other government agencies to have accurate information of a definite, scientific character as to what the exact costs of production were, so that when the price was named, if it were to be named, it would be determined not upon hearsay, not perhaps upon the self-serving declarations of those who were engaged in that business, but upon the facts which had been determined by a government agency which had no purpose other than the disinterested one of serving the public.

One of the chief difficulties attendant upon any plan of price control is the varying costs of production. The outstanding fact in all industrial production appears to be quite generally that the low cost, highly efficient, highly integrated plant can sell and make a

profit at a price where the high cost, inefficient plant can't even produce the commodity.

The importance of that fact looms large when it is realized that production is equally important with price. The prices of commodities affect our immediate comfort and well-being. The question of whether we win this war or not affects living conditions for the long future, and equally vital therefore with present comfort in the matter of low prices and perhaps more vital, is the question of getting the material out and the fixing of a price that will bring the production. Materials are necessary to win the war. The price must be sufficiently high in order to get the material. Men will not voluntarily produce unless they make a profit.

The problem is then, briefly, to fix a price based upon the cost of production that will give a fair return in profit and will at the same time not starve production.

In official circles the methods of price fixing most discussed have been two. One, that a flat price be fixed, and that it be made such that it will enable the high cost producer to sell with a profit and at the same time insure a large proportion of the total production. The merit of this suggestion lies in its simplicity. It is put into effect by the mere declaration of the price. Its disadvantage lies in the fact that any such price so fixed will afford to the low cost producer a large profit, whereas the high cost producer will make a much less profit, and unless the price fixed is at a point so high that the least efficient can produce, some production will be curtailed. In England, steel prices have been fixed by this method for a large variety of steel products. Generally speaking, these prices as fixed were material reductions and are now about one-half in price of prevailing market prices for similar commodities in this country. The plan has been made effective by a system of licensing.

The other plan that has been discussed is that of the pool. It would contemplate the purchase of all production at varying prices, giving approximately the same percentage of profit to all producers and the resale of the commodity at a fixed price which would be based upon the average of all the costs. It would contemplate giving a larger percentage of profit to the efficient than to the inefficient, in order to stimulate efficiency. The merit of this plan lies in the fact that it would give the same profit to all and that it would insure the entire production because all producers would

be getting a margin of profit. The principal objection to the plan, and it is a serious objection, would be the difficulty of administration. It would require extensive administrative machinery and the closest coördination between such administration and the industry involved. With the outbreak of the war, England bought large quantities of sugar in the markets of the world, resold it to the consumer in England at a fixed price and assured that price through its control over distribution. Since that time a joint commission of England, France and Italy buys sugar and resells the same on a similar plan.

Up to this time materials have been purchased by the army and the navy at tentative prices fixed by the President and subject to determinations as to the ultimate price upon cost investigations conducted by the Federal Trade Commission under the direction of the President. As to prices for the public, the President fixed the price of coal on the twenty-first day of August for the various districts, and the administration of the situation is now under the able control of Dr. Garfield, the fuel administrator.

Upon the cost data which the Federal Trade Commission has procured and which has been submitted to the President, the War Industries Purchasing Board, with the approval of the President, has fixed a flat price for copper and has secured assurances from the industry that wages would not be reduced and that the price thus secured for government purchase would be projected and sustained for the general public. It is highly probable that a similar action will develop with reference to steel products.

It is probable that the general development as to price fixing by the government will at the outset follow the line of fixing a flat price, rather than by attempting to control price through pool arrangements. It is the moderate course and will naturally commend itself to government because of its simplicity. Any weaknesses which the situation may have within it will be developed and the processes of further control will be those of evolution through experience, rather than an immediate attempt to project a very large administrative machinery in a new field of effort.

Whether prices made for government purchase can be made effective for the general public by agreement between those in the industry and government officials without specific legislative authority to enforce such prices, remains to be seen. In spite of the dili-

gence and perfect good faith of those who have pledged their effort to preserve fair prices for the public, there is no doubt that the condition of the market is such that the greatest of pressure will be exercised to find ways and means of getting the commodity irrespective of price after it has left the control of the original producer. Of the good faith of those engaging to preserve these prices for the public there may be no doubt; of their capacity to project and preserve for any length of time uniform fair prices for the general public, there is room for doubt. It will undoubtedly be aided by the administration of priority under the direction of the very able priority administration which has been created.